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How financial crisis history informs ethical corporate communication: Insights from corporate communication leaders

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ABSTRACT

This study explored how financial crisis history can inform corporate crisis communication practice across industries and over time. Thirty-eight interviews with chief communications officers (CCOs) and their counselors were conducted to explore what lasting lessons these corporate communication leaders learned from their crisis communication practice during the 2008 Financial Crisis. Key lessons learned include: 1) the importance for corporations to tailor their financial communication strategies according to victim vs. perpetrator perception and ethical response expectations held by stakeholders; 2) the importance of stakeholders, and employees in particular, when creating and implementing the plan; 3) the balance between speed and legal concerns, as well as the need for reducing complexity by making sure stakeholder communications are delivered with clarity and accessibility; and 4) a recipe for success includes *honesty*, *transparency*, *trust/integrity*, *taking action to reform questionable practices*, and *abiding by one's own personal morals*. Insights from this study shed light on how learning contributes to ethical corporate communication practice in times of crisis and crisis spillover.

1. Introduction

Pundits praise the financial services industry for its crucial role in society. While some advocate that the industry needs to bolster corporate governance in order to strengthen its ability to foster economic growth (Levine, 2005), others highlight how financial services companies can benefit society at large by reducing income inequality and poverty (Beck, Demirgüç-Kunt, & Levine, 2007). In addition to the wealth and positive outcomes the industry affords, reports underscore how the contemporary American financial system has also been shaped by its crises. In fact, an exercise of retrospection concerning major historical financial crises unveils key lessons and best practices for regulators and other stakeholders in the last decade's "post-crisis era" (The Economist, 2014, p.7). By the same logic, public relations and communication executives at the helm of crisis management stand to gain insight from the lessons learned during this most recent crisis and the ones preceding it (particularly the Great Depression).

Financial communication and investor relations, according to Bowen, Moon, and Kim (2017), are two of the most important functions of a public relations professional, since they can directly contribute to a company's stability and growth; maintaining and improving organizational credibility is also another critical function. Financial crises, which include insider trading, business fraud,

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stock market crashes and other financial disasters (Jameson, 2009), pose unique challenges for communication leaders. According to Whitten and Coombs (2017), crisis communication can help mitigate negative stock market reactions. The 2008 Financial Crisis affected nearly all organizations and businesses globally, including governments, and the public, and private sectors (Johansson & Nord, 2017). This led to large-scale economic downturn (Lawniczak, 2009), widespread corporate reputation risk across industries (Xifra & Ordeix, 2009), and "financial depression across the globe" (McKie & Lawniczak, 2009; p. 335). The crisis also caused tens of thousands of American homeowners to lose their homes and millions of investors to lose a large portion of their retirement savings. The events forced the corporate communication profession to confront unprecedented reputational challenges (Elving, 2009). Growing (dis)trust on the part of the public became more pivotal than ever. But those businesses practicing effective and ethical communication were able to withstand the crisis better than most.

The majority of literature studying the 2008 Financial Crisis through the lens of crisis communication primarily has focused on how the public sector responded to the crisis (e.g., Chua & Pang, 2012; Di Mascio, Natalini, & Stolfi, 2013; Johansson & Nord, 2017). Strauß and Vlidgenthart (2017) advocated for the importance of banks communicating with stakeholders in times of financial crisis. According to Elving (2009), the 2008 Financial Crisis challenged corporate communication practitioners and their departments with a task to boost the communication competency of CEOs and other spokespersons. CCOs and their counselors needed to focus on rebuilding credibility and confidence, and acting with transparency, and honesty about the operations of the corporations they represent (Elving, 2009).

Therefore, we conducted 38 interviews with CCOs and their counselors to glean a synthesis of learnings from corporate communications leaders, those individuals on the "front lines" of the 2008 Financial Crisis, and to help fill the research void in this area. Insights from these individuals provide us with empirical evidence on how the study of crisis history can inform ethical and effective crisis communication practice now. Ideally, these insights can guide CCOs on how best to manage crises of all types in the future.

2. Literature review

2.1. Corporate financial crisis communication

An organizational crisis is an unexpected, non-routine organization-based event that results in uncertainty, threat, or perceived threat to an organization's high priority goals (Seeger, Sellnow, & Ulmer, 2003). A cross-industry and globally impactful crisis, such as the 2008 Financial Crisis, presents unique challenges to crisis communication research and practice. According to current research, there are two characteristics of a financial crisis that differ from other types of crises: intensified complexity and cross-industry spillover.

2.1.1. Intensified complexity

As Johansson and Nord (2017) noted, communicating about financial crises is a daunting task, as these types of crises are by their nature more complex than other crises. What made the 2008 Financial Crisis even more challenging to corporate communicators was that the credibility of key institutions (i.e., regulators, credit rating companies, banks, and other financial institutions) was severely questioned and tarnished in the eyes of all stakeholders (Johansson & Nord, 2017). This challenge sets financial crisis communication research apart from the traditional research on crisis communication, which focuses on how organizations manage crises by way of communication so as to reduce reputational damage (Sellnow & Seeger, 2013). Traditional research does not address "communication in systematic crises and the diverse needs of various publics" (Johansson & Nord, 2017; p. 2). Therefore, corporate financial crisis communication bears the responsibility and opportunities for "strengthening organizational credibility and legitimacy" (Johansson & Nord, 2017; p. 2; Nord & Olsson, 2013). No other type of corporate crisis has such a profound, widespread and long-lasting impact on society.

Existing financial crisis communication literature identifies change and uncertainty as two key aspects for corporate communicators to address (Johansson & Nord, 2017). This entails understanding the corporate-stakeholder relationships and communication processes, embracing uncertainty and unpredictability, and making sense of the embedded characteristics of the complex financial systems especially, the lack of clear cause-and-effect relationships.

2.1.2. Industry spillover

Barnett (2006) suggested that a firm's strategic interests ebb and flow based on changes in its industry, and further offered eight propositions that impact a firm's resource allocations towards competitive or communal strategy. Furthermore, using the Union Carbide crisis as a case study, Barnett (2007) suggested that, while a firm's stock price can be destabilized by its competitor's actions, it can be re-stabilized if the firm cooperates with rivals through trade associations, which demonstrates the interdependence of firms within the same industry (Barnett, 2007). Barnett's propositions and findings provide a strong rationale for examining how companies in the financial industry strategically communicated with stakeholders to recover from the 2008 Financial Crisis collectively and competitively.

Winn, MacDonald, and Zietsma (2008) further offered perspectives regarding collective and competitive reputation management strategies and how individual firms can divert from the industry's resistant strategies and use innovative strategies to repair industry and firm legitimacy, creating a new norm for the industry. According to King, Lenox, and Barnett (2002), certain organizations can suffer from reputation damage in situations where stakeholders do not differentiate between the actions of organizations within the industry and sanction or threaten individual organizations' viability. The authors suggested organizations must help stakeholders have a more accurate sense of the organizations and industry by communicating individual and collective performance improvements